

Message Text

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MILADDEES FOR POLAD

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TAGS: EFIN, EGEN, GR

SUBJECT: GREEK GOVERNMENT 1977 BUDGET

REF: A. ATHENS A-55, B. ATHENS 11920

SUMMARY AND COMMENT: THE 1977 GREEK BUDGET APPEARS TO BE SOMEWHAT LESS EXPANSIONARY THAN THE CURRENT YEAR'S BUDGET. AT 245 BILLION BRACHMAS (ABOUT \$6.6 BILLION), EXPENDITURES INCREASE BY 16 PERCENT OVER 1976, COMPARED WITH A RISE OF 24 PERCENT FROM 1975 TO 1976. MOREOVER, ALTHOUGH THE PLANNED DEFICIT RISES FROM 36.2 BILLION DRACHMAS IN 1976 TO 43.7 BILLION DRACHMAS IN 1977, THE PORION FINANCED DOMESTICALLY WILL ACTUALLY DECLINE (FROM 35 BILLION TO 32 BILLION DRACHMAS), AND NEXT YEAR THIS MAY BE FINANCED BY BOND SALES, WHICH WITHDRAW LIQUIDITY FROM THE ECONOMY, RATHER THAN, AS IN 1976, BY EXPANSIONARY BORROWING FROM THE CENTRAL BANK. NEW TAXES ON DIVIDENDS AND CAPITAL

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ASSETS WILL HIT UPPER INCOME GROUPS AND BUSINESS FOR ABOUT 10

BILLION DRACHMAS (PAYABLE OVER FIVE YEARS), COMING ON TOP OF 1976'S CONTROVERSIAL "ONE-TIME TAX", WHICH YIELDED 12 1/2 BILLION DRACHMAS. THE EFFECT OF INCREASING TAX BURDENS ON THE STILL-LAGGIN PRIVATE INVESTMENT SECTOR REMAINS UNCERTAIN. IT IS HOWEVER, NOTEWORTHY THAT BOTH THE 1976 AND THE 1977 SPECIAL TAXES, BECAUSE OF THEIR PECULIAR DEFINITION (THEY ARE NOT TAXES ON INCOME AS SUCH), IN EFFECT PIERCED THE TEN-YEAR LEGAL TAX SHELTER WHICH MANY FOREIGN AND OTHER INVESTORS MAY HAVE THOUGHT THEY WOULD ENJOY UNDER THE GREEK INVESTMENT INCENTIVE LAWS 2687 AND 4171. GREECE STILL REMAINS, HOWEVER, AT THE LOW END OF THE SPECTRUM IN TERMS OF TAX BURDEN, COMPARED WITH MOST WEST EUROPEAN COUNTRIES: PUBLIC REVENUES AS A PROPORTION OF GNP ARE AROUND 25 PERCENT FOR GREECE, COMPARED WITH OVER 40 PERCENT FOR BELGIUM, FRANCE AND THE UK, OR AROUND 50 PERCENT FOR THE NORDIC COUNTRIES.

ON THE EXPENDITURE SIDE, CONTINUING THE TREND OF THE PAST FOR YEARS, THE 1977 BUDGET IS DOMINATED BY THE DEFENSE MINISTRY, WITH AT LEAST 22 PERCENT OF THE TOTAL--\$1.5 BILLION, OR 6.5 PERCENT OF GDP. THE DEFENSE BURDEN HAS MEANT THAT OTHER IMPORTANT AREAS OF THE NATIONAL BUDGET ARE INCREASING AT SLOWER RATES: INDEED, FOR 1977, EDUCATION ONLY SLIGHTLY INCREASES ITS SHARE OF THE BUDGET, SOCIAL SERVICES REMAIN CONSTANT, AND AGRICULTURE ACTUALLY FALLS.

END SUMMARY AND COMMENT.

1. FINANCE MINISTER DEVLETOGLOU LAST WEEK PRESENTED TO PARLIAMENT THE PROPOSED 1977 BUDGET, THE ESTIMATED IMPLE-
MENTATION OF THE 1976 BUDGET, AND THE FINAL FIGURES FOR THE 1975 BUDGET. HIGHLIGHTS FOLLOW.

2. 1976 EXPECTED RESULTS: THE TOTAL BUDGET (REGUALR PLUS INVESTMENT) IS NOW ESTIMATED AT 211.2 BILLION DRACHMAS, AN INCREASE OF 24 PERCENT OVER THE 1975 RESULTS, AND ALMOST 30 PERCENT OF GDP. ADJUSTING FOR AVERAGE INFLATION OF AROUND 13 PERCENT, REAL EXPENDITUES WILL BE ABOUT 11 PERCENT HIGHER THAN IN 1975. REGULAR BUDGET EXPENDITURES WILL AMOUNT TO 171.5 BILLION DRACHMAS,AS ORIGINALLY PLANNED, WHEREAS INVESTMENT OUTLAYS, AT 39.7 BILLION DRACHMAS, LIMITED OFFICIAL USE

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WILL BE SLIGHTLY LESS THAN THE BUDGETED 41 BILLION. REVENUES WILL EXCEED REGULAR BUDGET EXPENDITURES BY 2.5 BILLION DRACHMAS AND THIS SURPLUS WILL BE USED TO COVER PART OF THE INVESTMENT BUDGET, LEAVING A DEFICIT OF ONLY 36.2 BILLION DRACHMAS (VERSUS THE ORIGINALLY PROJECTED 40 BILLION DRACHMAS.) ALMOST ALL OF THIS WILL BE COVERED BY DOMESTIC BORROWING; ACTUAL FOREIGN BORROWING WILL AMOUNT TO ONLY ONE BILLION DRACHMAS, INSTEAD OF THE 15 BILLION ORIGINALLY PROJECTED. AT THE CURRENT EXCHANGE

RATE, THIS IS A FOREIGN EXCHANGE SAVING OF ALMOST \$400 MILLION, AND IS CLEARLY AN IMPORTANT FACTOR IN THE REDUCED LEVEL OF FOREIGN BORROWING THIS YEAR (SEE REF. B.).

5. TOTAL 1977 BUDGET: THE TOTAL BUDGET OF 245 BILLION DRACHMAS (APPROXIMATELY \$6.6 BILLION AT CURRENT EXCHANGE RATES), REPRESENTS AN INCREASE OF 16 PERCENT OVER THE EXPECTED 1976 RESULTS, AND IS AGAIN CLOSE TO 30 PERCENT OF PROJECTED GDP. WHEN DEFLATED BY THE ESTIMATED 11 PERCENT INCREASE IN PRICES, THE REAL GROWTH OF EXPENDITURES WILL, HOWEVER, JUST KEEP PACE WITH THE PROJECTED REAL GDP GROWTH RATE OF 5-6 PERCENT,

4. 1977 REGULAR BUDGET: BOTH REVENUES AND EXPENDITURES ARE SET AT 200 BILLION DRACHMAS, AN INCREASE OF 16.6 PERCENT OVER 1976; THIS INCLUDES A RESERVE FUND OF 10 BILLION DRACHMAS. DIRECT TAXES (48 BILLION DRACHMAS) WILL PROVIDE 24 PERCENT OF REVENUES, UP THREE PERCENT OVER 1976, AND INDIRECT TAXES 68 PERCENT (137 BILLION DRACHMAS), OR 20 PERCENT OVER 1976. ALL OTHER TAXES CONSTITUTE EIGHT PERCENT OF THE TOTAL. BECAUSE OF A DROP IN THE PROPORTION OF REVENUES FROM DIRECT TAXES FROM 27 PERCENT IN 1976 TO 24 PERCENT, THE OPPOSITION PARTIES CRITICIZED THE GOVERNMENT, SOMEWHAT SOPHISTICALLY, FOR "INCREASING THE BURDEN OF THE POORER CLASSES". THIS ARGUMENT IS FALLACIOUS, HOWEVER, SINCE A LARGE INCREASE IN THE PROPORTION OF DIRECT TAXES IN 1976 WAS TECHNICAL, DERIVING FROM THE "ONE-TIME TAX" ON LOANS AND PROFITS (SEE REF A). THIS TAX, WHICH WILL NOT BE REPEATED, WAS CONSIDERED A DIRECT TAX AND YIELDED AROUND 121/2 BILLION DRACHMAS, 7.2 PERCENT OF 1976 REGULAR BUDGET REVENUES. A COMPARISON OF 1977 WITH 1975, WHEN DIRECT TAXES CONSTITUTED 22 PERCENT OF REVENUES, WOULD BE MORE VALID.

5. 1977 INVESTMENT BUDGET: PUBLIC INVESTMENT BUDGET EXPENDITURES LIMITED OFFICIAL USE

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FOR 1977 ARE SET AT 45 BILLION DRACHMAS (INCLUDING A FOUR BILLION DRACHMA RESERVE FUND), 13.4 PERCENT OVER 1976. ABOUT THREE-QUARTERS OF THE ANTICIPATED 43.7 BILLION DRACHMA DEFICIT WILL BE FINANCED FROM DOMESTIC BORROWING AND ONE QUARTER FROM EXTERNAL BORROWING; TO REDUCE THE INFLATIONARY IMPACT OF THE DEFICIT, THE BANK OF GREECE IS CONSIDERING FINANCING THE DOMESTIC PORTION THROUGH BOND SALES. THE GOVERNMENT WILL GIVE PRIORITY TO PROJECTS IN BORDER AREAS AND TO THOSE WHICH WILL BE IMMEDIATELY PRODUCTIVE. EMPHASIS IS ON THE SPEEDY COMPLETION OF PROJECTS ALREADY UNDERWAY, AND FEW NEW PROJECTS ARE SCHEDULED. THE RELATIVELY SMALL INCREASE IN THE MOSTLY DEFICIT-FINANCED PUBLIC INVESTMENT BUDGET (CONSIDERING THE PROBABLE INFLATION RATE, THE PROJECTED REAL INCREASE IS NEGLIGIBLE) SUGGESTS A SOMEWHAT LESS EXPANSIONARY FISCAL POLICY NEXT YEAR, DUE TO CONTINUING CONCERN ABOUT INFLATION.

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6. NATIONAL DEFENSE: BASED ON NEW GOG FIGURES, THE EMBASSY NOW ESTIMATES 1976 DEFENSE MINISTRY EXPENDITURES AT 45 BILLION DRACHMAS (OR 21.4 PERCENT OF THE TOTAL REVISED BUDGET), COMPARED WITH THE ORIGINALLY PROJECTED 48.5 BILLION DRACHMAS (REF.A). (THE GOG PUBLISHED FIGURE IS 44 BILLION DRACHMAS, WHICH DOES NOT INCLUDE ONE BILLION DRACHMAS IN DEFENSE OUTLAYS COVERED BY SPECIAL REVENUES.) TURNING TO 1977, DEFENSE MINISTRY ALLOCATIONS AMOUNT TO 43.7 BILLION DRACHMAS IN THE REGULAR BUDGET AND FIVE BILLION DRACHMAS IN THE INVESTMENT BUDGET, TOTALING 48.7 BILLION DRACHMAS; IN ADDITION, 800 MILLION DRACHMAS IN THE COORDINATION MINISTRY BUDGET IS DESTINED FOR THE GREEK AEROSPACE INDUSTRY, AND A LARGE BUT UNSPECIFIED AMOUNT OF THE 10 BILLION DRACHMA RESERVE FUND FROM THE REGULAR BUDGET WILL BE USED TO COVER ADDITIONAL SPECIAL DEFENSE EXPENDITURES. FINANCE MINISTER DEVLETGLOU TOLD US THAT TOTAL 1977 DEFENSE MINISTRY EXPENDITURES SHOULD BE AROUND 55 BILLION DRACHMAS (\$1.5 BILLION AT CURRENT EXCHANGE RATES). THIS AMOUNTS TO 22.4 PERCENT OF THE 1977 BUDGET AND A 22 PERCENT INCREASE OVER THE EMBASSY-ESTIMATED FIGURE FOR 1976 (25 PERCENT IF THE GOG 1976 FIGURE IS USED). DEFENSE EXPENDITURES, WHICH NEXT

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YEAR WILL BE 6.6 PERCENT OF ESTIMATED GDP, HAVE BEEN RISING STEADILY OVER THE LAST FOUR YEARS: IN 1973, BEFORE THE CYPRUS CRISIS, THEY WERE ONLY 13.5 BILLION DRACHMAS AND 13.4 PERCENT OF THE BUDGET--OR 3.2 PERCENT OF GDP.

7. EDUCATION, SOCIAL SERVICES AND AGRICULTURE: THE 1977 REGULAR AND INVESTMENT BUDGETS PROVIDE 27.1 BILLION DRACHMAS (11 PERCENT OF THE TOTAL) FOR EDUCATION, AND INCREASE OF 20 PERCENT OVER 1976. SOCIAL SERVICES WILL ABSORB 27.3 BILLION DRACHMAS, ALSO 11 PERCENT OF THE TOTAL BUDGET AND A 16 PERCENT RISE OVER 1976. FOR AGRICULTURE, INCLUDING RECLAMATION, FORESTRY AND FISHING, 13.9 BILLION DRACHMAS ARE ALLOCATED IN THE BUDGET, FIVE PERCENT OVER 1976, AND ABOUT SIX PERCENT OF THE TOTAL. IN ADDITION, 2.7 BILLION DRACHMAS FROM SPECIAL FUNDS (SEE PARAGRAPH 9)

WILL BE SPENT ON AGRICULTURE. THUS, ONLY EDUCATION (SLIGHTLY) INCREASES ITS PROPORTION OF THE BUDGET, WITH SOCIAL SERVICES CONSTANT AND AGRICULTURE ACTUALLY FALLING.

8. PUBLIC SERVICE SALARIES:

SALARIES AND PENSIONS OF PUBLIC EMPLOYEES IN 1977 WILL ABSORB 81 BILLION DRACHMAS, 41 PERCENT OF THE REGULAR BUDGET AND AN INCREASE OF 17 PERCENT OVER 1976. SALARY AND PENSION INCREASES WILL AVERAGE AROUND TEN PERCENT.

9. "CONSUMER GOODS ACCOUNT": THE "CONSUMER GOODS ACCOUNT", WHICH IS SEPARATE FROM THE REGULAR AND INVESTMENT BUDGETS, REPRESENTS PURCHASE AND SALE OF COMMODITIES AS AN INSTRUMENT FOR PRICE STABILIZATION AND SUBSIDY PURPOSES. PART OF THE 14.1 BILLION DRACHMA 1977 BUDGETED DEFICIT IN THIS ACCOUNT REPRESENTS AN INCREASE IN PHYSICAL STOCKS AND IS THEREFORE ONLY AN ACCOUNTING DEFICIT, BUT A SUBSTANTIAL PORTION, REPRESENTING THE DIFFERENCE BETWEEN COMMODITY SALES REVENUE AND SUBSIDIES PAID OUT OF THE ACCOUNT, WILL BE A REAL DEFICIT FINANCED BY THE BANK OF GREECE. THE COMPARABLE REAL DEFICIT FOR 1976 IS NOW ESTIMATED AT AROUND 6.5 BILLION DRACHMAS.

10. PUBLIC DEBT: SERVICING OF THE PUBLIC DEBT WILL AMOUNT TO 23.5 BILLION DRACHMAS OR ABOUT 10 PERCENT OF THE TOTAL BUDGET, A PROPORTION VIRTUALLY UNCHANGED FROM LAST YEAR.

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11. NEW TAX MEASURES: TOGETHER WITH THE BUDGET PRESENTATION,

THE GOG SUBMITTED A DRAFT LAW ON TAX EVASION AND NEW TAX MEASURES, WHICH ARE EXPECTED TO YIELD FOUR BILLION DRACHMAS IN ADDITIONAL 1977 REVENUES. TAX RATES ON DIVIDENDS FOR STOCKS LISTED IN THE STOCK EXCHANGE ARE TO BE RAISED FROM 33 PERCENT TO 38-41 PERCENT, AND FOR STOCKS NOT LISTED IN THE STOCK EXCHANGE FROM 41 PERCENT TO 43-47 PERCENT. ALL ENTERPRISES WHICH KEEP BOOKS USING THE DOUBLE ENTRY SYSTEM (ABOUT 15,000) WILL BE OBLIGED TO REASSESS THE VALUE OF THEIR LAND AND BUILDINGS AND TO CAPITALIZE THE EXCESS VALUE. THIS EXCESS VALUE WILL THEN BE TAXED AT TEN PERCENT FOR THE LAND AND 20 PERCENT FOR THE BUILDINGS (ALTHOUGH 1975 OPERATING LOSSES, IF ANY, CAN BE DEDUCTED FROM THE NEW TAX DUE.) PRESENT TAX RATES ARE ONE AND THREE PERCENT, RESPECTIVELY, AND REVALUATION WAS PREVIOUSLY NOT OBLIGATORY. THE NEW TAXES, WHICH ARE EXPECTED TO YIELD A TOTAL OF ABOUT 10 BILLION DRACHMAS, CAN BE PAID OVER A FIVE-YEAR PERIOD, WITH A POSSIBLE EXTENSION; 1977 BUDGET RECEIPTS OF AROUND 2 1/2 BILLION ARE CURRENTLY EXPECTED FROM THIS SOURCE. AN ADDITIONAL 1 1/2 BILLION DRACHMAS ARE EXPECTED IN 1977 FROM THE NEW MEASURES TO REDUCE TAX EVASION GENERALLY AND SPEED UP REVENUE COLLECTION.

12. MORE COMPLETE BUDGET FIGURES WILL BE AVAILABLE SOON. FULL PARLIAMENTARY DEBATE ON THE BUDGET IS SCHEDULED TO BEGIN BEFORE CHRISTMAS. AN AIRGRAM WITH MORE DETAILED ANALYSIS WILL FOLLOW.
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